Alberta Government

Petroleum Plaza – North Tower
7th Floor, 9945 – 108 Street
Edmonton, Alberta T5K 2G6
Canada
www.alberta.ca

GAS ROYALTY OPERATIONS
INFORMATION BULLETIN
November 2012

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PLEASE ENSURE YOUR PRODUCTION ACCOUNTANTS RECEIVE A COPY OF THIS DOCUMENT

PRICING RATES AND TRANSPORTATION INFORMATION

A. For Pricing, Royalty Rates and Transportation Information for September 2012, refer to the Information Letter.

The monthly default sulphur price for September 2012 is $84.22.

Annual Sulphur Default Price

2007	2008	2009	2010	2011
$32.53	$297.38	$5.83	$42.19	109.99

B. NOTICES

Office Closures – Christmas Period

All Alberta Energy offices will be closed from Monday, December 24 to Wednesday, December 26, 2011, inclusive. Our offices are also closed on Tuesday, January 1, 2012

AC2 Retirement Reporting

In a review of the 2008 AC2 reporting year, the Department has noted that a significant number of retirements have been reported. In order to ensure that any asset that is retired or any Facility Cost Centre (FCC) that is retired has been correctly reported, a distinction is made between disposed, retired, terminated and out-of-service assets. The 2006 and 2009 Alberta Natural Gas Royalty Guidelines state:

Appendix N:

- "**Disposed asset** means an asset included in the allowable capital cost of a facility cost centre and which has been **sold or otherwise disposed of."**
- **"Retired asset** means an asset included in the allowable capital cost of a facility cost centre that has been **permanently retired** from service."
- **"Terminated asset** means an asset included in the allowable capital cost of a facility cost centre, which has been terminated and **will not be returned to service.**
- **"Out-of-service asset**, in relation to allowable capital cost, means an asset that is either **shut in or abandoned.**"

Chapter VI, Section 3.3.1 - Capital Cost Allowance:

- "If the net book value of a disposed asset is not identifiable, the asset may be removed at a net book value estimated by a professional engineer.

- "Any remaining allowable capital cost is added to the capital cost allowance in the year in which the asset is retired or terminated."
- "**The net book value of a retired or terminated asset is zero**."
- "Out-of-service assets include assets that are shut-in or abandoned. These assets may be removed from the facility capital pool after one full year (12 months) of out-of-service status. These assets can be reactivated when production commences to match revenues with costs. The reinstatement value will be the net book value of the asset at the time of shut-in.

When an asset is retired, the remaining value is written off. By writing off the value of the asset, the Crown has shared in 100% of the cost of the asset. An entire FCC may be retired only if there are no volumes passing through the FCC.

C. MONTHLY INFORMATION

September 2012 Royalty Due December 31

- **Royalty clients are to remit the total amount payable shown on the December 2012 Statement of Account by December 31, 2012**. If the amount payable includes accrued current period interest, the interest has only been accrued to the statement issue date. Clients must also include the additional interest that has accrued from the statement issue date to the date of payment, using the per diem amount provided.

- **The December 2012 Statement of Account shows your amount payable as of the Statement issue date. It includes any outstanding balances from your previous statement, your September 2012 invoice amount and any applicable current period interest charges. It also identifies refunds resulting from overpayments.**

- Current period interest will not be charged on current invoice charges for the production month of September 2012 if it is paid in full by December 31, 2012.

- Current period interest will accrue on any overdue charges commencing the first day after the due-date until it is paid in full.

  Note: If the due date falls on a non-business day, the next business day will apply as the due date.

- Cheques are payable to the Government of Alberta.

October 2012 VA4 Due December 15

The VA4 forms for the production month of October 2012 are due in the department offices by December 15, 2012.

Note: If the due date falls on a non-business day, the next business day will apply as the due date for VA4 forms.

PETRINEX Deadline Submissions

The PETRINEX deadline for SAF, OAF, and Volumetric submissions are posted on the PETRINEX website "Reporting Calendars" under Calendars. ***Changes to this calendar will be posted on the PETRINEX website home page in "Broadcast Messages."***

Interest Rate November 2012

Alberta Energy's interest rate for October is 4.00%.

August Provisional Assessment Charge

The summary of Provisional Assessment Charges for all production periods in the August 2012 billing period was:

First Time Provisional Assessment	Reversals of Provisional Assessments (Net)	Net Provisional Assessment
$1,244,404.90	**($7,551,694.81)**	**$6,307,289.91**

August Penalty Charges

The penalty table below shows at the form level, the total penalty charges and reversals, for the August 2012 billing period.

Forms	Penalty Charges	Penalty Reversals	Net Penalty Charges for 2012/08
AC2	$93,500	$(14,200)	$79,300
AC4	$200	$0	$200
AC5	$500	$0	$500
NGL1	$0	$0	$0
VA2	$0	$0	$0
VA3	$0	$0	$0
VA4	$0	$0	$0
Total	**$94,200**	**$(14,200)**	**$80,000**

Production Allocation Discrepancy (PAD) Potential Royalty Impact

As of the August 2012 billing period, the potential royalty dollar impact is estimated as $50.0 million, distributed as follows by production year:

2009	2010	2011	2012
$9.6 million	$18.4 million	$17.7 million	$4.3 million

NOTE: These values are not intended to show that Crown royalty has been understated but do illustrate the consequences of incorrect reporting.

Gas Royalty Operations Support

Upon request, Gas Royalty Operations staff will be available to meet with clients who need assistance with royalty reporting. Royalty clients requiring assistance are encouraged to contact your respective Gas Royalty Volumetric and Cost Reporting portfolio representative, as identified in Section F of this bulletin, to arrange a meeting.

Well Event Measured Depth Determination Letter

The department has issued a "Well Event Measured Depth Determination Letter" under the Report Package DOE – Gas to facility operators via PETRINEX on November 1, and November 16, 2012. This letter shows the confirmed Measured Depth (MD) of each active well event that will be used to calculate the Depth Factor (DF) of the quantity component rate under the Alberta Royalty Framework formula. A well event that is not listed on the letter and does not have a confirmed MD will receive a DF of 1. When the changes to the MD are confirmed by the department, a letter is issued to a facility operator who reports changes through the PETRINEX to well event attributes affecting MD. All changes to the MD are applied on a go forward basis only. Facility operators are advised to submit well event attribute changes by the last day of the calendar month in order for timely determination of MD.

NGDDP Confidential Wells

Wells designated as "confidential" will be reviewed prior to the removal of the "confidential" status, if the directional surveys and completion reports are provided to the department. Please send directional surveys and completion reports to GasRoyaltyPrograms@gov.ab.ca

If you have any questions, please contact Joyce Chen at 780-427-1550.

D. INFRASTRUCTURE DATA CHANGES

Client ID Listing

The BA Identifiers Report is a directory of Business Associate (BA) names, codes, status (e.g. struck, active, amalgamated, etc.), status effective dates, and effective August 2004, includes Working Interest Owner (WIO) role start/end dates.

This report is also published daily on the PETRINEX website.

The Department reminds Business Associates to review their WIO role to ensure that the start and end dates are reflected correctly. If the BA does not have an active WIO role, the operators cannot allocate volumes to the BA for the relevant production periods through the SAF/OAF allocations.

- If a BA has a WIO role, then that BA can receive SAF/OAF allocations from the WIO role start date forward.
- If a BA has a WIO role with an end date, then they can only receive SAF/OAF allocations from the WIO role start date until the end date. Any SAF/OAF allocations after the end date will be rejected.
- If a BA does not have a WIO role start date, then that BA cannot receive SAF/OAF allocations.

Please contact Client Registry at 780-422-1395, if you have any questions regarding the information supplied on this listing.

Client Status Changes

Clients must ensure that all royalty documents are completed using only valid client names and IDs. It is critical that royalty clients use current legal client names and their appropriate IDs on all documents to ensure accurate royalty calculation and to prevent provisional assessment and penalties. Rejects will occur when invalid IDs are used.

If you require information regarding client names or IDs, please contact Client Registry at 780-422-1395.

Nova Tolls - Multiple Gas Reference Prices

Royalty information related to the implementation of the Factor Model negotiated with industry for determining Multiple Gas Valuation Prices is provided on the Natural Gas website's Royalty Related Information page under Facility Royalty Trigger Factors and Meter Station Ties.

E. REMINDERS

2008 Production Year Audits in Progress at the end of 2012

The 2008 production year becomes statute barred on December 31, 2012.

Non-operator partners are advised that certain Enhanced Oil Recovery Schemes, CO2 Project Credit claims, Allowable Costs, Custom Processing Fees, Capital Costs, Custom Processing Adjustment Factor (CPAF), and Volumetric Reporting Discrepancy Audits are currently in progress.

It is anticipated that these audits will be completed before December 31, 2012. However, should circumstances warrant, completion of these audits will occur in 2013. A list of Facility Cost Centres affected by the custom processing adjustment factor review at year end will be published with the December 2012 Information Bulletin.

Royalty clients are also reminded that amendments received by the Department in the fourth year following the production year may be subject to audit. If the amendments are received late in the fourth year and insufficient time is available for the Department to commence a review of the amendments prior to the end of the year, the Department reserves the right to commence the audit at the beginning of the fifth year.

If you have any questions, please contact Kris Pretty of the Compliance & Assurance Group at 403-297-8785.

Royalty Liable Gas Used for Fuel (PURREC/PURDISP)

The Department is reviewing volumetric dispositions of gas, reported on PETRINEX, from batteries, gathering systems or gas plants to batteries, gathering systems or gas plants that is sold or deemed sold for fuel. This review is for production year 2008 onward and is to be completed in 2013. The objective of the review is to ensure that all gas sold and used for fuel is accurately reported on PETRINEX to facilitate Crown royalty calculation. Where reporting errors are found royalty clients will be notified to submit amendments.

Effective June 4, 2009, when there is a sale of gas or transfer of ownership within the royalty network, the selling facility is required to report PURDISP, which would then auto populate the PURREC for the purchaser (receiving facility). This enhances the controls to prevent fuel sale gas volumes from being incorrectly reported in PETRINEX. This new reporting method also applies to all prior period amendments completed after June 4, 2009. A purchase disposition (PURDISP) is a volume of product that has been sold by a facility to another facility within the royalty network. A PURDISP of gas is subject to Crown royalty charges.

For example: effective June 4, 2009, if a gas plant (GP) sells gas for fuel to a battery (BT) each month, the reporting is as follows:

1. The GP Operator must report a PURDISP.
2. This will auto populate a PURREC at the BT.

3. The GP operator must then file a SAF/OAF for the PURDISP volumes.

All parties should take steps to ensure that in network sales or transfers of gas are correctly reported in PETRINEX.

If you have any questions, please contact Salim Sumar at 780-422-9255.

Reporting Reminders

Royalty clients are reminded that the information they are required to file to Alberta Energy must be complete and accurate. This includes any information prepared by third parties which is submitted to Alberta Energy. The Alberta Natural Gas Royalty Guidelines are provided to add clarity to the filing requirements. Additional clarification, if required, can be sought directly from Alberta Energy by contacting our Volumetric and Cost Reporting client portfolio team.

We would also point out that both the Natural Gas Royalty Regulation, 2002 and the Natural Gas Royalty Regulation, 2009 provide the ability for the Crown to assess penalties related to the filing of inaccurate statements. An explanation of this provision is contained in the Alberta Gas Royalty Guidelines in Chapter II Section 1.7, "**Penalties on Inaccurate Statements in a Required Report**".

If a reporting error is discovered and the royalty client is notified of the error, the royalty client has 12 months from the date of notice to correct any similar errors **in all subsequent period filings**. If these errors are not corrected penalties of not less than $1,000 and up to 50 per cent of the underpayment principal amount may be imposed.

Statutory Requirement and Recalculation of 2008 Royalty

A production year becomes statute barred on December 31st, four years after the end of a production year. Once a year has become statute barred, calculation or recalculation of royalty does not occur on a monthly basis. Section 38 of the Mines and Minerals Act provides for recalculation of royalty that can be initiated in two ways:

1. On the department's initiative in conjunction with an audit or examination; or
2. At the request of a royalty payer.

Audits in Progress

Non-operator partners are informed that certain 2008 Allowable Costs, Capital Costs, Custom Processing Fees, Custom Processing Adjustment Factor (CPAF), and other reporting discrepancy audits are in progress. It is anticipated that these audits will be completed before December 31, 2012. However, should circumstances warrant a completion of these audits in 2013, a list of the affected Energy Resources Conservation Board (ERCB) facilities will be included in the December 2012 Information Bulletin. Royalty clients are also reminded that amendments received by the department in the fourth year following the production year may be subject to audit. If the amendments are received late in the fourth year and insufficient time is available for the department to commence a review of the amendments prior to the end of the year, the department reserves the right to commence the audit at the beginning of the fifth year.

If you have any questions, please contact Kris Pretty, Manager, Compliance & Assurance, Calgary, at (403) 297-8785.

Industry Recalculation of 2008 Royalty

Industry initiated royalty recalculation requests for the 2008 production year must be submitted in writing to the attention of Pat Van Meer, Manager, Volumetric & Cost Reporting, Gas Royalty Operations. This request must be received by the department on, or before, December 31, 2012 and it must include the following:

- Identification of the recalculation facility or facilities
- A list of the royalty variables proposed for recalculation
- The reason for the recalculation
- The production year of the recalculation
- An order of magnitude estimate (i.e. >$100,000, >$1 Million, >$2 Million, etc.,) of the recalculation requested
- Identification of all royalty clients that may be impacted by the request (this is necessary, especially in situations where volumes may be cascaded to another client who is expected to respond to the cascade)
- Confirmation from the operator that the affected partner(s) have been notified
- A sample copy of the submission pertaining to a particular production month in paper or electronic format (e.g., excel)

If the request meets the department's terms and conditions for recalculation, it will be approved. A request made during the fourth year following the production year, must be completed before the end of the fifth year, with a reasonable time for a review by the department, prior to the end of the fifth year.

If you have any questions regarding this process, please contact your Volumetric & Cost Reporting portfolio representative as identified in Section F of this bulletin.

Production Allocation Discrepancy (PAD) Royalty Recalculation Schedule

In May of 2012, PETRINEX implemented a new monthly reconciliation process that compares a production entity's allocated quantities with its reported gas production volumes. If the variance between the allocated quantities and the gas production volume exceeds a prescribed tolerance, the reporting situation is included in a monthly PAD Report. This report is available to operators who have the ability to amend production or allocation volumes to resolve a reporting discrepancy.

As part of the reconciliation process, potential royalty impacts have been communicated to royalty clients through a DOE PAD Report which is issued with the Ministry Invoices and Statements after the monthly gas royalty invoice cycle is complete. Through further consultation with industry representatives, the department has received feedback on the process and determined the following implementation schedule for royalty recalculation:

2012 to Current Production Month(s)	Billing Month	Calendar Month
January 2012 to July 2012	January 2013	March 2013
August 2012	February 2013	April 2013
September 2012	March 2013	May 2013
October 2012	April 2013	June 2013
November 2012	May 2013	July 2013
December 2012	June 2013	August 2013
Continue this sequence into 2013 and subsequent production years by recalculating the next available production month in the next available billing month. The potential royalty impact for the 6 most recent production months is specified on the DOE PAD Report.		

Prior Years' Production Month(s)	Billing Month	Calendar Month
January 2009 to December 2009	April 2013	June 2013
January 2010 to December 2010	October 2013	December 2013
January 2011 to December 2011	January 2014	March 2014

These are the initial royalty recalculations for each production month and they are not considered to be final assessments as further amendments may still be processed until a production year becomes statute barred. When royalty recalculation occurs for a given production month, that month is no longer included as a potential royalty impact in the DOE PAD Report. A new discrepancy for a production month that has already had its initial royalty recalculation immediately appears on the current billing month's invoice.

The department encourages industry operators and owners to work together to resolve the identified reporting discrepancies in advance of the initial royalty recalculation dates.

For further details, please refer to the article entitled *DOE Gas Production Allocation Discrepancy Reporting Project* in the April 2012 Gas Royalty Information Bulletin. If you have any questions regarding this process, please contact your Volumetric & Cost Reporting portfolio representative, as identified in Section F of this bulletin.

F. POINTS OF CONTACT

Quick Reference

PETRINEX	petrinexsupport@petrinex.ca
V&CR	VCR1@gov.ab.ca
	VCR2@gov.ab.ca
	VCR3@gov.ab.ca

Management Information	ManagementInformation.Energy@gov.ab.ca
Gas Royalty Accounts	GasRoyaltyAccounts.Energy@gov.ab.ca
Royalty Features	GasRoyaltyPrograms@gov.ab.ca

PETRINEX (formerly Petroleum Registry of Alberta)

The focal point for communications regarding preparations for, access to, or utilization of PETRINEX is the PETRINEX Service Desk.

Contact Information:
Phone: 403-297-6111 or 1-800-992-1144
Fax: 403-297-3665
Email: petrinexsupport@petrinex.ca
Website: www.petrinex.ca

Volumetric & Cost Reporting

Volumetric & Cost Reporting is structured as a Business Associate client portfolio system, which assigns a given Business Associate to one of three teams. Listed below is the portfolio breakdown along with the Volumetric & Cost Reporting Team Leads and phone numbers. The portfolios are divided by company name and not by BA ID.

Example: If your company name is the "Gas Company" you would call the C – G team at 780-644-1202

Business Associate	Phone Number and E-mail Address	Team Lead
Numbered companies, A, B, H-P	780-644-1201 VCR1@gov.ab.ca	Mary Spearing
C – G	780-644-1202 VCR2@gov.ab.ca	Lily Hiew
Q – Z	780-644-1203 VCR3@gov.ab.ca	Jyoti Bhambhani

Gas Royalty Reception: 780-422-8727
Fax: 780-427-3334 or 780-422-8732
Alberta Toll Free: 780-310-0000

Hours of operation are 8:15 a.m. to 4:30 p.m. Voice messages left after 4:30 p.m. will be answered the next business day.

In situations where a company has just amalgamated or purchased another company, the general rule is to call the team that is responsible for the "Supra" business associate, or Royalty payer.

Below are some guidelines for clients who are unsure which Volumetric and Cost Reporting Team to call regarding their questions.

1. **Amalgamation/consolidation** - Call the team responsible for the "Supra" business associate (Royalty Payer).

   i.e. ABC Oil and Gas amalgamates with Zed Exploration and Zed is the amalgamator (royalty payer). When calling Volumetric and Cost Reporting regarding business for ABC Oil and Gas, you would call Team 3 (Q-Z) (780-644-1203) because Zed Exploration is now the Supra business associate and royalty payer. This rule would apply even if you were calling regarding business that is prior to the acquisition or amalgamation.

2. **Asset Purchase** - Call the team responsible for your company.
   i.e. 123 Gas purchases the assets of TSP Exploration, but not the company. When calling Volumetric and Cost Reporting regarding business for 123 Gas, you would call Team 1 (# Co., A, B, & H-P) (780-644-1201) because you have only purchased assets.

3. **Consultants/service providers** - If you have a contract to provide production accounting services to a company, call the team responsible for your client's company.
   i.e. Paul Snow Consulting Services enters into a contract with Duckback Oil and Gas and Olive Oil and Gas. Paul Snow would contact Team 2 (C-G) (780-644-1202) to discuss Duckback Oil business and Team 1 (# Co., A, B, & H-P) (780-644-1201) to discuss Olive Oil and Gas business. At the time the contract is signed, Paul Snow would have had each company notify the appropriate team that he was authorized for their company.

Management Information

All inquiries or requests that relate to Royalty Deposits should be forwarded to the Management Information Team at ManagementInformation.Energy@gov.ab.ca.

Royalty Accounting

All inquiries or requests that relate to royalty accounting (e.g. Transfers, Refunds, Interest, Statement of Account and Collections) should be forwarded to the Royalty Accounting Team at GasRoyaltyAccounts.Energy@gov.ab.ca.

Royalty Features

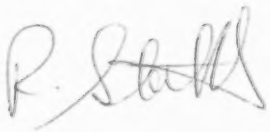
All inquiries or requests that relate to royalty programs (e.g. Natural Gas Deep Drilling Program, New Well Royalty Rates and Otherwise Flared Solution Gas Royalty Waiver Program) should be forwarded to the Royalty Features team at GasRoyaltyPrograms@gov.ab.ca.

Alberta Energy Internet

Prices, Royalty Rates and Transportation Information are available on the Alberta Energy Internet address: www.energy.alberta.ca, from "Our Business", navigate to "Natural Gas", "About Natural Gas", "Prices", "Alberta Natural Gas Reference Price (ARP)".
In addition, both the Gas Royalty Information Bulletins and Information Letters are also available under "Our Business", navigate to "Natural Gas", "Legislation, Guidelines & Policies".

Reference Prices and Valuation Allowances Calculation Information

Gas Royalty Valuation and Markets
300, 801 – 6 Avenue SW
Calgary, Alberta T2P 3W2
Telephone: 403-297-5514
Fax: 403-297-5400



Richard Stokl
Director, Gas Royalty Operations
Royalty Operations